The American Experience with Labor Standards and Trade Agreements

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APPAM Meetings

New York City

The American Experience with Labor Standards and Trade Agreements

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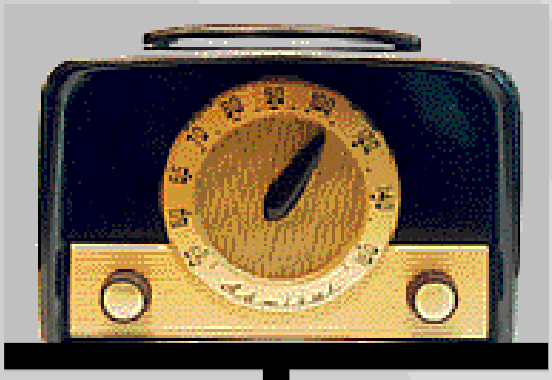
Workshop 3 - Forum 5

IIRA 11th World Congress

Bologna, Italy



“...(W)orrying about workers is out of fashion these days.”

Economist Magazine commenting on the ILO

Three Fallacies: A Preview

- **Wages and Labor Standards Are the Same Thing**
- **Absolute Sovereignty Can Exist Among Trading Nations**
- **The Trade Pattern and the Trade Deficit are Closely Related**

Three Conclusions: A Preview

- **Labor Standards in Developing Countries Will Have Little Impact on Developed Countries**
- **Such Standards Should Therefore Be Evaluated in Terms of Impact on Developing Countries**
- **Absolutist Concepts of National Sovereignty Not Tenable for Developing Countries That Wish to Trade**

U.S. Official Policy

- **Supports linkage between trade agreements through WTO and adherence to labor standards**
- **Has failed so far to obtain sufficient world support for that position**
- **Is party to regional trade agreements - notable NAFTA - with labor standards elements but will have problems with "fast track" extension**
- **Has supported recent ILO initiatives**

The U.S. and the ILO and WTO

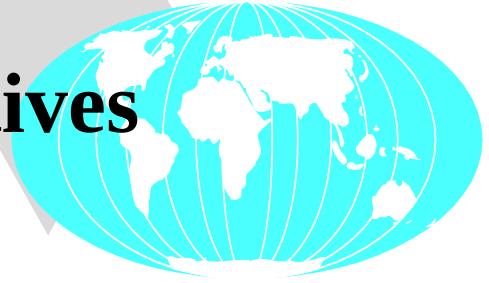
- **Active in creation of ILO but didn't join until World War II**
- **Has not ratified many ILO conventions. (Do as I say, not as I do.)**
- **ILO became active in trade/labor issue after WTO pushed issue to ILO in 1996**
- **Supported 1998 adoption of an ILO "global report" on core labor standards**

Selected ILO Conventions

- **Freedom of association**
- **Collective bargaining**
- **Forced labor**
- **Discrimination**
- **Child labor**
- **Equal remuneration**

Labor Standards in Non-WTO Agreements

- **NAFTA (later)**
- **Caribbean Basin Initiative of 1983**
- **Generalized System of Preferences (amended 1984)**
- **Overseas Private Investment Corporation**
- **Instructions to U.S. representatives at IMF and World Bank**
- **Child labor initiatives**



Child Labor

- **Efficiency vs. values**
- **Bad public relations**
  - **Wal-Mart**
  - **Disney**
  - **The Gap**
  - **Kathie Lee Gifford**
  - **Nike CEO Phil Knight in Michael Moore's "The Big One"**
- **Labeling initiatives such as RUGMARK**

NAFTA and the Labor Side Accord

- **Mechanisms for international complaints about self-enforcement of internal labor laws**
- **Most cases against Mexico but three so far against U.S.**
  - **Sprint (Calif.)**
  - **Washington State apples**
  - **DeCoster Egg Farm (Maine)**
- **No real sanctions; only bad public relations**
- **Cross-border trucking**
- **Job creation/destruction: bad theory but hot issue**

U.S. Politics

- **Pre-1960s**
  - **Republicans: protection**
  - **Democrats: free trade**
- **Rise of U.S. multinational firms changes business attitudes**
- **Import competition changes union attitudes**
- **Confused picture today**
- **Interplay of politics and labor standards issue**

“No matter what the cash benefits, we don’t want to merge our economy with Mexico, and we don’t want to merge our country with Mexico. We don’t want to force American workers to compete with dollar-an-hour Mexican labor. That’s not what America is all about.”

Patrick J. Buchanan,
1992 and 1996 Republican primary presidential candidate

“New trade relationships - some fair, some less than fair - have thrown us into a roller-coaster competition with nations that don’t share many of our values - about the dignity of labor; the integrity of the environment; or the centrality of human rights.”

U.S. House Democratic leader Richard A. Gephardt

Has NAFTA Been Good or Bad for the U.S.?

❒Good☺	39%
❒Bad☹	39%
❒Mixed😐	7%
❒Don't know	15%

***Los Angeles Times* poll, Sept. 1997**

International Wage Convergence?

Before

- **Japan: Wages 10% of U.S. in 1960**
- **4-Tigers: Wages 5-13% of U.S. in 1975**
- **Mexico: Wages 23% of U.S. in 1975**
- **China: Wages 4.5% of U.S. in 1980**

1996

- **Japan: Wages 118% of U.S. in 1996**
- **4-Tigers: Wages 29-47% of U.S. in 1996**
- **Mexico: Wages 8% of U.S. in 1996**
- **China: Wages 3.8% of U.S. in 1996**

Question: Which Model Should be Applied to China (and possibly India or even - for U.S. - Mexico)?

- ➔ Conventional model of wage convergence or...
- ➔ W.A. Lewis model of growth at constant wage?

Effect of U.S. Trade Deficit on Worker Displacement: 1995 (millions)

	Actual	Zero
Total	-1.2	+0.2
4 Tigers plus China	-0.6	-0.3
Union	-0.3	0
High school or less	-0.9	0

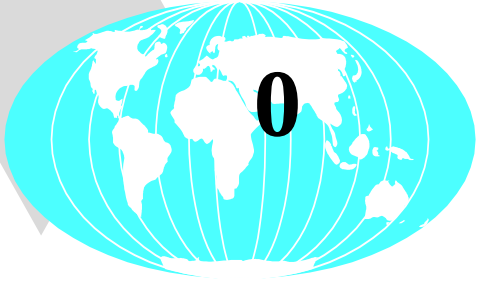
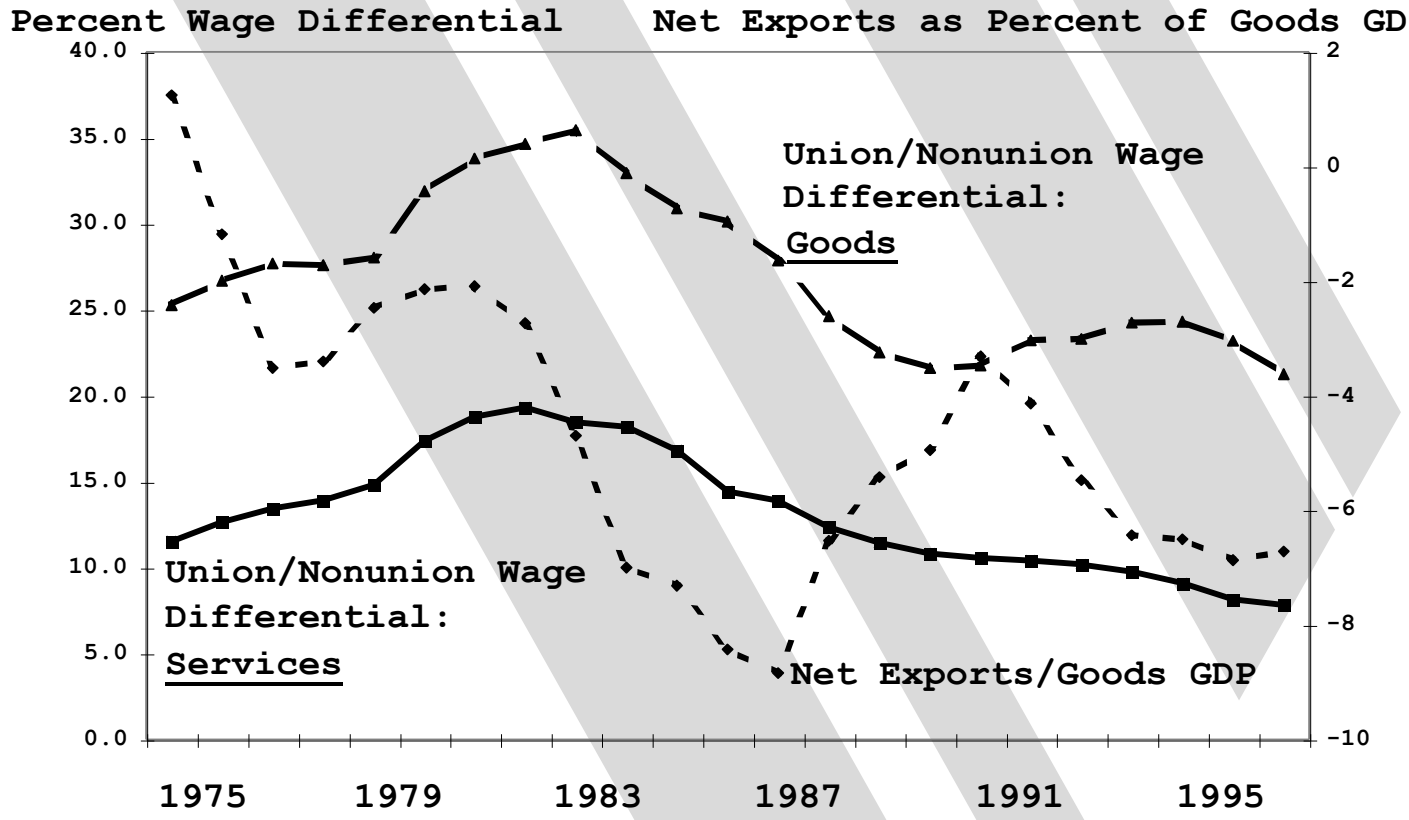


Figure 2B: Union/Nonunion Wage Differential for Goods and Services and Net Exports of Merchandise as Percent of Goods



Final Thoughts

- **Enforcement of labor standards will not have much impact on trade patterns**
- **But non-enforcement could endanger trade treaties and liberalization**
- **Trade imbalance rather than trade *per se* has been the more significant international influence on U.S. labor**
- **Unknown element: Impact of China as possibly other countries with large unskilled workforces**